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UNITED CIGAR-WHELAN STORES CORPORATION

Annual Report

FOR THE YEAR

1952

UNITED CIGAR-WHELAN STORES CORPORATION

215 FOURTH AVENUE • NEW YORK 3, N. Y.

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DIRECTORS

CHARLES ALLEN, JR.,
Senior Partner, Allen & Co.,
New York, N. Y.

DAVID G. BAIRD,
Senior Partner, Baird & Co.,
New York, N. Y.

LEO BERTISCH,*
President
Director, Green Sales Co., Inc.

GEORGE P. FRENKEL,
Vice-President, Frenkel & Co., Inc.,
New York, N. Y.

CHARLES GREEN,*
Chairman of the Board, Green Sales Co., Inc.,
New York, N. Y.

HOULDER HUDGINS,*
Director and Member of Executive Committee,
W. & J. Sloane, New York, N. Y.

HON. J. RAYMOND McGOVERN,
Comptroller of the State of New York,
Albany, N. Y.

WILLIAM L. PFEIFFER
President and Director,
William L. Pfeiffer Co., Inc.,
Rochester, N. Y.

TED M. SEGAL,*
New York, N. Y.

HARRY T. SILVERMAN,
Director and Secretary-Treasurer,
Dorset Products, Inc., New York, N. Y.

B. A. TOMPKINS,*
Director and Senior Vice-President,
Bankers Trust Company, New York, N. Y.

* Member — Executive Committee

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OFFICERS

B. A. TOMPKINS, Chairman of the Board

CHARLES GREEN, Chairman of Executive Committee

LEO BERTISCH, President

PAUL OLSEN, Vice-President, Treasurer and Comptroller

ALVAH K. PARENT, Vice-President and Secretary

HARRY M. CHICHESTER, Vice-President

HERMAN H. GOLDSTEIN, Vice-President

FRANK KOHN, Vice-President

A. HERBERT SMITH, Vice-President

BENJAMIN S. THAW, Vice-President

CHARLES J. SEWALL, Assistant Secretary and Assistant Treasurer

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COUNSEL

ARANOW, BRODSKY, EINHORN & DANN, New York, N. Y.

Annual Report

April 15, 1953

To the Stockholders of

UNITED CIGAR-WHELAN STORES CORPORATION:

There is submitted herewith the report of your Corporation together with the consolidated balance sheet and consolidated statement of profit and loss and earned surplus for the year ended December 31, 1952, as certified by Price Waterhouse & Co., independent public accountants.

Sales and Earnings

Comparison of sales and profit and loss for the year 1952 and 1951 is as follows:

	1952	1951
Sales	$ 67,601,591	$ 74,216,252
Profit (Loss) .	721,366	(810,059)

The decline in sales of 9% is accounted for chiefly by a decrease in the number of unprofitable units in operation; at December 31, 1952 we were operating eleven less drug stores, nine less cigar stores, and one hundred sixty-four less agencies, mainly in California and Florida, than at December 31, 1951. It is our desire, however, to increase our sales volume by the acquisition of larger merchandising units and the development of a larger number of Drug Agencies in our primary market areas. Leases have already been signed for five new company-owned units in New York City and Long Island. Two of these units will be self-service and the others will be the conventional

type drug stores; it is anticipated all will be in operation during the early part of 1953.

The improvement in profit is due to the following:

(1) A substantial increase in the profit percentage on sales as a result of more scientific and aggressive buying, merchandsing and sales promotion policies. The steps taken during the latter part of 1951, leading to the discontinuance of certain unsalable merchandise, the removal of many high priced lines unsuitable to drug store merchandising and the reduction of inventories, has effected a more rapid turn-over of merchandise;

(2) Substantial reductions in all operating costs — in stores, warehouses, offices and supervision;

(3) The concerted efforts of all employees — officers, executives, department heads and all company personnel — who are striving to prove that our Corporation can earn substantial profits.

Finances The strong financial condition of the Corporation at the end of 1951 has been further improved. On January 26, 1953, together with the dividend disbursement, I reported to the holders of Common Stock as follows: "Since your management took office in October, 1951, inventories have been reduced by approximately $3,500,000; real estate holdings, leaseholds, and other fixed assets not needed in the operation of the business have been sold for approximately $1,350,000. The additional funds provided by the foregoing have been used, in part: (1) to reduce the long-term debt by $2,750,000, thereby decreasing interest charges at the annual rate of $96,250; and (2) to purchase 13,400 shares of the Company's Convertible Preferred Stock for a total of $868,490, thereby reducing annual dividend requirements by $46,900 and increasing Common Stock equity by about $470,000." These 13,400 shares of the Convertible Preferred Stock, together with 6,600 shares previously held in the Treasury of the Corporation, were retired on December 15, 1952. After giving effect to the foregoing, our cash position at December 31, 1952, was approximately $1,200,000 greater than at December 31, 1951. Moreover, the direct result of this retirement of 20,000 shares of the Convertible Preferred Stock was to

increase the Corporation's capital surplus from $4,909,489 to $5,672,014. At the same time, after giving effect to our declared Common Stock dividend, our earned surplus increased by $365,774.

Dividends

On January 26, 1953, an initial dividend of 10¢ per share was paid to the Common stockholders of record at December 31, 1952. This dividend was paid from current earnings and is the first dividend which the holders of Common Stock have received since the reorganization of the Corporation in 1937. The annual dividend of $3.50 per share on the Convertible Preferred Stock of the Corporation was declared and paid.

While the operating results of the past year show a great deal of promise to management and, I am sure, to all stockholders, every one of us — directors, officers and employees — are determined to better the improvement shown so far. We will continue the policy of concentration in and domination of our primary market areas and of strengthening the position of the Corporation in its field.

In behalf of the Board I wish to thank and commend the Corporation's officers, employees and agents for their cooperation and efforts which contributed so materially to our success in 1952.

Respectfully submitted,

LEO BERTISCH, *President*

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 1952 AND 1951

UNITED CIGAR-WHELAN STORES CORPORATION AND SUBSIDIARY COMPANIES

ASSETS

	December 31 1952	1951
CURRENT ASSETS:		
Cash	$ 5,168,355	$ 3,934,425
United States Government securities, at cost	9,200	11,500
Accounts and notes receivable, less estimated doubtful accounts	1,707,635	2,342,404
Claim for federal income tax refund	289,000	289,000
Inventories of merchandise and supplies, at cost or market whichever is lower	8,589,678	9,802,636
Prepaid insurance, taxes and rents	252,074	398,897
Total current assets	16,015,942	16,778,862
MERCHANDISE INVENTORIES WITH AGENTS	480,975	579,850
NOTES AND ACCOUNTS RECEIVABLE DUE AFTER ONE YEAR and miscellaneous investments, at or below cost	156,145	163,125
FIXED ASSETS, at cost or less:		
Real estate	33,624	1,419,715
Furniture, fixtures and equipment (includes approximately $1,400,000 on which depreciation provided is equal to the asset)	5,613,336	5,937,332
	5,646,960	7,357,047
Less—Depreciation provided	3,256,160	3,333,346
	2,390,800	4,023,701
Improvements to leaseholds, less amortization	2,818,367	3,158,592
Total fixed assets	5,209,167	7,182,293
DEFERRED CHARGES	197,414	142,008
Total Assets	$22,059,643	$24,846,138

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 1952 AND 1951

UNITED CIGAR-WHELAN STORES CORPORATION AND SUBSIDIARY COMPANIES

LIABILITIES AND CAPITAL

	December 31	
CURRENT LIABILITIES:	*1952*	*1951*
Accounts payable	$ 2,754,359	$ 2,491,477
Dividends payable	256,965	37,888
Taxes accrued and withheld	700,287	704,536
Accrued compensation and other current and accrued liabilities	912,287	978,651
Provision for federal income taxes	248,471	24,353
Total current liabilities	4,872,369	4,236,905
LONG-TERM DEBT:		
Notes payable, 3½%, due 1954-1958 (Note A)	2,250,000	5,000,000
Mortgage payable	—	169,690
Total long-term debt	2,250,000	5,169,690
CAPITAL STOCK AND SURPLUS (Note B):		
Convertible Preferred Stock:		
Authorized—50,000 shares, par value $100 a share, $3.50 dividend cumulative		
Issued—30,000 shares (1951—50,000 shares)	3,000,000	5,000,000
Common Stock:		
Authorized—3,000,000 shares, par value 30¢ a share		
Issued—2,307,308 shares	692,192	692,192
Capital surplus	5,672,014	4,909,489
Earned surplus since July 1, 1939	5,573,068	5,207,294
Less—Treasury stock, at cost	—	(369,432)
Total capital stock and surplus	14,937,274	15,439,543
Total Liabilities and Capital	$22,059,643	$24,846,138

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND EARNED SURPLUS

FOR THE YEARS 1952 AND 1951

UNITED CIGAR-WHELAN STORES CORPORATION AND SUBSIDIARY COMPANIES

	1952	*1951*
Net sales	$67,601,591	$74,216,252
Cost of sales	48,572,194	55,231,163
	19,029,397	18,985,089
Display advertising, sundry commissions, etc.	1,596,153	1,783,030
Rental income	837,219	912,277
Profit on disposition of fixed assets and leases	50,301	52,723
Profit on sales of securities	900	380,926
Other income	111,351	72,314
	21,625,321	22,186,359
Salaries, wages and other compensation	11,921,235	12,819,309
Rent expense	3,642,609	3,875,176
Taxes, other than federal income taxes	945,263	1,049,631
Depreciation and amortization	830,911	906,366
Other operating and administrative expenses	3,103,530	4,046,876
Writedown to realizable value of fixed assets applicable to closed stores	—	192,848
Interest on long-term debt	131,663	190,646
Extraordinary expenses pertaining to stockholders' litigation and special meeting	57,610	147,000
Other charges	46,134	57,566
	20,678,955	23,285,418
	946,366	(1,099,059)
Federal income taxes:		
Provision for 1952 taxes	507,000	—
Less: Reduction due to carryforward of unused balance of 1951 loss	(282,000)	—
Refund of 1950 taxes due to carryback of 1951 loss	—	(289,000)
	225,000	(289,000)
Profit (loss) transferred to earned surplus	721,366	(810,059)
Earned surplus at beginning of year	5,207,294	6,169,432
	5,928,660	5,359,373
Dividends on Convertible Preferred Stock ($3.50 a share)	124,877	152,079
Dividend on Common Stock (10¢ a share)	230,715	—
	355,592	152,079
Earned surplus at end of year (Note B)	$ 5,573,068	$ 5,207,294

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

UNITED CIGAR-WHELAN STORES CORPORATION AND SUBSIDIARY COMPANIES

NOTE A:

During 1952 the corporation reduced its 3½% notes payable from $5,000,000 to $2,250,000 by prepaying $2,500,000 on notes due in 1958-1961, inclusive, and $250,000 on note due in May, 1953. The remaining notes of $2,250,000 are due as follows: $500,000 each year 1954-1956, $550,000 in 1957 and $200,000 in 1958.

NOTE B:

The Convertible Preferred Stock is entitled in liquidation to and is redeemable at the option of the corporation in whole or in part upon 30 days' notice at $104 a share during 1953, and at an amount 50¢ less per share cumulative for and during each of the seven years 1954 to 1960, and thereafter at $100 a share plus, in each case, accrued dividends to the date of redemption or liquidation. Each share of Convertible Preferred Stock is exchangeable for four shares of common stock.

During the year 1952 the corporation purchased 13,400 shares of its preferred stock for $868,490 which, together with 6,600 shares purchased in prior years and held in Treasury, were retired. The excess ($762,418) of the par value of the 20,000 shares retired over the cost thereof was credited to capital surplus. Capital surplus was also credited with $107 representing the excess of the proceeds from the sale of 154 shares of common stock held in Treasury over the cost thereof.

At December 31, 1952 the involuntary liquidating value of the Convertible Preferred Stock outstanding amounted to $3,135,000 compared with the par value of $3,000,000. In the opinion of counsel for the corporation the right to the difference ($135,000) between such par value and such liquidating preference value is not a restriction upon the distribution of surplus as dividends.

The corporation's loan agreement (as amended) covering notes payable provides, among other restrictions and limitations, (1) that at no time shall the corporation permit its consolidated net current assets to fall below $8,000,000 and (2) that the corporation will not declare or pay dividends (other than dividends payable in its common stock) or purchase or redeem any of its outstanding capital stock if immediately thereafter and as a result thereof consolidated current assets will be less than 175% of consolidated indebtedness. Under the foregoing provisions, at December 31, 1952 approximately $8,102,000 of the consolidated surplus accounts (capital surplus of $5,672,014 and earned surplus of $5,573,068) may not be used in the payment of dividends (other than dividends payable in its common stock) or for the purchase or redemption of any outstanding capital stock of the corporation.

NOTE C:

The corporation and its subsidiaries in the ordinary course of business lease all store properties. At December 31, 1952 there were 174 leases expiring more than three years after that date for which the minimum annual rental was approximately $2,350,000. The majority of these leases provide for additional rental based upon percentages of sales in excess of predetermined bases and other factors.

PRICE WATERHOUSE & CO.

56 Pine Street,
New York 5, N. Y.
March 27, 1953

To the Board of Directors of

UNITED CIGAR-WHELAN STORES CORPORATION:

In our opinion, the accompanying financial statements fairly present the financial position of United Cigar-Whelan Stores Corporation and its subsidiary companies at December 31, 1952 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of such statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

PRICE WATERHOUSE & CO.

Executive Offices

215 Fourth Avenue — New York 3, N. Y.

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Branch Offices and Warehouses

82 39th Street, Bush Terminal Bldg. No. 22	Brooklyn 32, N. Y.
5000 District Boulevard	Los Angeles 11, Calif.
230-243 N. W. 26th Street	Miami 37, Fla.
725 South Wells Street	Chicago, Ill.

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Transfer Agent

Convertible Preferred Stock and Common Stock

Bankers Trust Company, New York, N. Y.

Registrar

Convertible Preferred Stock and Common Stock

Manufacturers Trust Company, New York, N. Y.

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